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**ANNUAL REVIEW OF TELECOMMUNICATIONS TRADE AGREEMENTS
HIGHLIGHTS HIGH INTERCONNECTION RATES IN JAPAN**

United States Trade Representative Charlene Barshefsky announced today the results of this year's review of Japan's compliance with telecommunications trade agreements under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988. The review focused on compliance with the World Trade Organization Basic Telecommunications Agreement and determined that additional action may be necessary to ensure that Japan abides by its WTO commitments.

"Japan's failure to implement cost-oriented interconnection rates calls into question its adherence to its WTO commitment to ensure cost-based interconnection rates and regulate its market in an impartial manner," Ambassador Barshefsky said. "We expect Japan to clarify its plans for reforming its interconnection regime in the next several months, following passage of interconnection-related legislation. Based on these clarifications, and further discussion with the Japanese government, we will decide by the end of July, whether additional action, including in the WTO, would be appropriate."

Background - Section 1377 complaints regarding Japan

During last week's U.S.-Japan deregulation talks in Tokyo, Japan's Ministry of Posts (MPT) and Telecommunications indicated it planned to cut interconnection charges by only 22 percent by 2004. The Japanese government plans to submit legislation soon that will give it authority to set rates based on competitive business practices. It currently plans for a four-year phase-in to levels that would sustain in Japan by far the highest interconnection rates of any developed or developing country with a liberalized telecommunications market. The United States, the EU and Japanese industry have all pressed Japan to implement deeper cuts immediately.

The Competitive Telecommunications Carriers Association (Comptel), and the United States Council for International Business (USCIB) alleged that Japan's major supplier, NTT, does not offer cost-oriented interconnection rates, in violation of its WTO obligations. Both organizations

based these conclusions on comparisons with interconnection rates from other competitive markets (which NTT 's rates exceed by between two and five times); and on analysis of the proposed new rates of the Japanese regulator (MPT), which are based on methodologies that run counter to principles of cost-orientation.

NOTE: The USTR will issue in the next few days its section 1377 decisions on the other countries subject to this year's review.